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Report Highlights:

New Zealand fluid milk production in 1999/2000 is forecast to rise more than 8 percent to a new record due to improved pastures. Production of dairy products will also rebound; export supplies will be large and an increase in exports is expected, assuming further economic recovery in Asia. The dairy restructuring process which would create a megacoop and end the statutory export monopoly of the Dairy Board is the key policy issue in 1999/2000.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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SECTION I SITUATION & OUTLOOK

New Zealand fluid milk production in 1999/2000 is forecast to reach 12 million metric tons, up more than 8 percent and a new record. Better rains and warm weather have led to improved pastures in most areas which will result in a sharp rebound in milk output compared to last year's drought-reduced production. Milk production in the season to date has been strong, with some areas showing collection gains more than 10 percent above last year's figures; however, pastures in some areas were dry from last year's drought and adequate rainfall during the November-April period will be key to the final outturn.

Milk production is increasing in the South island, reaching nearly 20 percent of national production due to cheaper land. Herd size is also increasing to above 220 cows, as smaller farms are being bought up to create more profitable larger farms.

Given the large boost in fluid milk production, production of cheese, butter, milk powder and whey is expected to recover strongly, hitting record levels. Supplies for export of these products obviously will be large and the dairy industry expects some increase in these exports, assuming continuing recovery in Asian economies, especially Southeast Asia (but acknowledges that continued weak demand in some areas like Russia will likely limit export gains). A continued weak New Zealand dollar will also likely be a positive factor for exports in 1999/2000.

Regarding prices, the Dairy Board is predicting an increase in the 1999/2000 payout price to NZ\$3.40 per kg/milk solids (up about 5 percent from last year's level); farm gate prices are predicted at NZ\$5.93 kg/milk fat compared to NZ\$5.67 the previous year. Internationally, the industry in 1999/2000 expects milk powder and butter prices to be up slightly, with cheese prices fairly stable.

The key domestic policy issue facing the dairy industry during 1999/2000 will be the restructuring process. The New Zealand Parliament on September 4, 1999, approved the Dairy Restructuring Bill, which is the first step in eliminating the statutory single seller status of the Dairy Board. The Commerce Commission, however, must approve the merger of coops into a one megacoop, and in August, the Commission rejected the merger due to concerns over lack of domestic competition and high costs versus benefits. A new merger proposal will be submitted, probably in November, with a Commission decision expected by February. If approved, farmers must then approve the merger with a 75% vote. Coops must also agree on their merger structure. If these steps are approved, the statutory state export monopoly of the Dairy Board would end effective September 1, 2000. At that point the megacoop would have exclusive rights to specified quota markets for 6 1/2 years, with control fully phased out by 2010. Exports to non-quota markets (after Sept 1, 2000) would be open to any company (including a few expected smaller independent companies), but the megacoop would likely export most product to these markets given its control of most of the domestic milk supply. Foreign investment in the industry would also be allowed.

The GNZ will be a strong proponent in the new WTO Round of eliminating export subsidies, reducing domestic support, and improving market access for dairy. The GNZ will work closely with the other Cairns countries and other supporters to achieve these objectives. The Dairy Board estimates that only 6 percent of world dairy markets are truly open, and it paid NZ\$527 (US\$ 279 million) last year in tariffs on dairy exports.

In 1998/99, the Dairy Board restructured its international dairy operations, creating two separate operations—New Zealand Milk, handling branded consumer and food service and New Zealand Milk Products for marketing ingredients.

In 1998/99, the international market was difficult, with currency devaluations in Russia and Brazil and the on going effects of the Asian crisis contributing to lower world prices and reduced exports to some markets, while exports to some markets rose, like cheese to the U.S. Overall, Dairy Board export sales held up well in 98/99, at 1,596,000 tons, equal to the previous year. Revenue in the 98/99 year totaled NZ\$7.421 billion, up from NZ \$7.189 billion in 97/98, primarily due to gains in ingredient revenue (up NZ\$187 million).

The Board estimates it holds a 31% share of globally traded dairy products.

\$US:NZ Exchange Rates: June Years: 1996 (.67), 1997 (.70), 1998 (.62), 1999 (.53). Rate as of 10/20/99 (.52)

SECTION II STATISTICAL TABLES

PSD Table: Fluid Milk

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Fluid				(1000 HEAD)(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Cows In Milk	3270	3270	3285	3285	0	3295
Cows Milk Production	11640	11640	11460	11070	0	12020
Other Milk Production	0	0	0	0	0	0
TOTAL Production	11640	11640	11460	11070	0	12020
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	11640	11640	11460	11070	0	12020
Intra EC Exports	0	0	0	0	0	0
Other Exports	15	15	15	15	0	15
TOTAL Exports	15	15	15	15	0	15
Fluid Use Dom. Consum.	400	400	400	400	0	400
Factory Use Consum.	10774	10774	10588	10250	0	11125
Feed Use Dom. Consum.	451	451	457	405	0	480
TOTAL Dom. Consumption	11625	11625	11445	11055	0	12005
TOTAL DISTRIBUTION	11640	11640	11460	11070	0	12020
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

PSD Table: Cheese

PSD Table						
Country	New Zealand					
Commodity	Dairy, Cheese				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Beginning Stocks	41	41	41	41	41	13
Production	266	266	245	245	0	275
Intra EC Imports	0	0	0	0	0	0
Other Imports	1	1	1	0	0	0
TOTAL Imports	1	1	1	0	0	0
TOTAL SUPPLY	308	308	287	286	41	288
Intra EC Exports	0	0	0	0	0	0
Other Exports	232	232	210	240	0	245
TOTAL Exports	232	232	210	240	0	245
Human Dom. Consumption	35	35	36	33	0	33
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	35	35	36	33	0	33
TOTAL Use	267	267	246	273	0	278
Ending Stocks	41	41	41	13	0	10
TOTAL DISTRIBUTION	308	308	287	286	0	288
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	21	0	35	0	35

PSD Table: Butter

PSD Table						
Country	New Zealand					
Commodity	Dairy, Butter				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Beginning Stocks	101	88	99	86	99	54
Production	343	343	350	310	0	345
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	444	431	449	396	99	399
Intra EC Exports	0	0	0	0	0	0
Other Exports	315	315	320	312	0	320
TOTAL Exports	315	315	320	312	0	320
Domestic Consumption	30	30	30	30	0	30
TOTAL Use	345	345	350	342	0	350
Ending Stocks	99	86	99	54	0	49
TOTAL DISTRIBUTION	444	431	449	396	0	399
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	15	0	16	0	20

PSD Table: Non-fat Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Beginning Stocks	60	60	67	67	51	54
Production	215	215	190	203	0	215
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	275	275	257	270	51	269
Intra EC Exports	0	0	0	0	0	0
Other Exports	197	197	195	205	0	210
TOTAL Exports	197	197	195	205	0	210
Human Dom. Consumption	11	11	11	11	0	11
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	11	11	11	11	0	11
TOTAL Use	208	208	206	216	0	221
Ending Stocks	67	67	51	54	0	48
TOTAL DISTRIBUTION	275	275	257	270	0	269
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	6	0	3	0	3

PSD Table: Whole Milk Powder

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		06/1997		06/1998		06/1999
Beginning Stocks	47	47	54	54	73	40
Production	397	397	375	382	0	410
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	444	444	429	436	73	450
Intra EC Exports	0	0	0	0	0	0
Other Exports	359	359	325	362	0	370
TOTAL Exports	359	359	325	362	0	370
Human Dom. Consumption	4	4	4	4	0	4
Other Use, Losses	27	27	27	30	0	30
Total Dom. Consumption	31	31	31	34	0	34
TOTAL Use	390	390	356	396	0	404
Ending Stocks	54	54	73	40	0	46
TOTAL DISTRIBUTION	444	444	429	436	0	450
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	6	0	5	0	4

PSD Table: Dried Whey

PSD Table						
Country	New Zealand					
Commodity	Dairy, Dried Whey				(1000 MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		6/1997		6/1998		6/1999
Beginning Stocks	0	1	4	4	4	3
Production	0	21	24	20	0	22
Intra EC Imports	0	0	0	0	0	0
Other Imports	0	1	1	1	0	1
TOTAL Imports	0	1	1	1	0	1
TOTAL SUPPLY	0	23	29	25	4	26
Intra EC Exports	0	0	0	0	0	0
Other Exports	0	18	24	21	0	22
TOTAL Exports	0	18	24	21	0	22
Human Dom. Consumption	0	1	1	1	0	1
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	0	1	1	1	0	1
TOTAL Use	0	19	25	22	0	23
Ending Stocks	0	4	4	3	0	3
TOTAL DISTRIBUTION	0	23	29	25	0	26
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	5	0	7	0	8

Export Trade Matrix: Cheese

Export Trade Matrix			
Country	New Zealand		
Commodity	Dairy, Cheese		
Time period	June Year	Units:	MT
Exports for:	1998		1999
U.S.	21408	U.S.	35140
Others		Others	
Japan	52430	Japan	54101
Australia	20906	Australia	26707
United Kingdom	18338	United Kingdom	17455
Belgium	17835	Belgium	14170
Russia	13190	Philippines	8145
Mexico	10152	Mexico	7304
Philippines	7763	Russia	6535
Chile	5537	Egypt	5908
Taiwan	5164	Algeria	5599
Saudi Arabia	4598	Korea	5254
Total for Others	155913		151178
Others not Listed	54754		53393
Grand Total	232075		239711

Source: Statistics New Zealand.

Export Trade Matrix: Butter

Export Trade Matrix			
Country	New Zealand		
Commodity	Dairy, Butter		
Time period	June Year	Units:	MT
Exports for:	1998		1999
U.S.	15496	U.S.	16191
Others		Others	
Russia	58224	United Kingdom	41461
United Kingdom	51881	Belgium	33154
Belgium	34379	Russia	31881
Egypt	15498	Egypt	24323
Iran	12975	Iran	13512
UAE	9772	Mexico	10130
Mexico	8974	Taiwan	9581
Morocco	8528	Morocco	6852
Taiwan	8432	UAE	6513
Saudi Arabia	6746	Australia	6179
Total for Others	215409		183586
Others not Listed	84282		79492
Grand Total	315187		279269

Source: Statistics New Zealand.

Export Trade Matrix: Non-fat Dry Milk

Export Trade Matrix			
Country	New Zealand		
Commodity	Dairy, Milk, Nonfat Dry		
Time period	June Year	Units:	MT
Exports for:	1998		1999
U.S.	6160	U.S.	3260
Others		Others	
Philippines	28137	Malaysia	28911
Malaysia	26358	Philippines	22621
Japan	21291	Taiwan	19039
Indonesia	17373	Indonesia	18488
Taiwan	15006	Japan	17084
Thailand	12691	China	10763
Saudi Arabia	9892	Saudi Arabia	10484
China	8289	Singapore	8273
Singapore	8087	Thailand	7986
Brazil	6286	Brazil	7720
Total for Others	153410		151369
Others not Listed	37649		50915
Grand Total	197219		205544

Source: Statistics New Zealand.

Export Trade Matrix: Whole Milk Powder
(includes sweetened)

Export Trade Matrix			
Country	New Zealand		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	June Year	Units:	MT
Exports for:	1998		1999
U.S.	5889	U.S.	5564
Others		Others	
Venezuela	42460	Malaysia	41453
Malaysia	37317	Mexico	32995
Mexico	37288	Sri Lanka	30054
Sri Lanka	29119	Venezuela	29739
China	19273	China	24932
Thailand	18929	Thailand	20557
Taiwan	18109	Taiwan	18047
Peru	17594	Vietnam	14666
Saudi Arabia	13790	Peru	13143
Philippines	12793	Saudi Arabia	12281
Total for Others	246672		237867
Others not Listed	106224		118824
Grand Total	358785		362255

Source: Statistics New Zealand.

Export Trade Matrix: Dried Whey

Export Trade Matrix			
Country	New Zealand		
Commodity	Dairy, Dried Whey		
Time period	June Year	Units:	MT
Exports for:	1998		1999
U.S.	5314	U.S.	6980
Others		Others	
Korea	944	Denmark	3122
Japan	2332	Japan	2269
Australia	1631	China	2157
Denmark	1800	Australia	1547
China	990	Peru	757
Peru	376	Korea	672
Canada	925	Indonesia	515
Hong Kong	678	Canada	494
Germany	572	Chile	362
Total for Others	10248		11895
Others not Listed	2209		1778
Grand Total	17771		20653

Source: Statistics New Zealand.

SECTION III**SUPPLY, DEMAND, POLICY, & MARKETING****PRODUCTION****Outlook**

Given better rains and warm weather that has improved pastures to date in significant dairy producing regions and the apparent end of the drought that has impacted dairy over the last year, fluid milk production in 1999/2000 is forecast to increase about 8 percent to a record 922 million kilograms of milk solids (kgMS) or 12,020,000 metric tons of fluid milk. Production in 1999/2000 is expected to recover from last year's 4.5 percent drop and continue its 3 percent average annual increase despite low world dairy prices as dairying remains more profitability than beef or sheep.

The Waikato region of central New Zealand, which produces about 44 percent of national milk production, in particular has seen better rains this winter compared to last season. The southern part of the north island received less rain in July-August but pasture is still good. Strong fluid milk production nationwide in August-September supports the record production forecast. Production in some areas is more than 10 percent above the same time last year but sources note that only 30 percent of the season's potential milk production has been assured. March and April are important production months and some parts of the central North Island and South Island were dry already, and should a drought return for the remainder of the season, production would be affected. Production normally hits its peak in November.

New Zealand fluid milk production in 1998/99 totaled 849 million kg of milksolids or 11,070,000 MT of fluid milk. Production in 1998/99 was 42 million kg of solids lower than the previous year. Milksolids purchased by the New Zealand Dairy Board in 1998/99 totaled 804 million kg MS, a decrease of 31 million metric tons from the previous year due to drought, mainly in the North island during the later period of the year. The difference between total milk production and milk solids purchased is local market milk.

Fluid milk production continues to grow as more cows are milked (adding at least 10-25,000 a year) and productivity increases.

Production Structure

Data from 97/98 show there are about 14,500 dairy farms in New Zealand, with the average farm size at 215 acres and average herd size at 220 cows. The average farm herd size is increasing however, as smaller farms are being bought up and combined with other units. Dairymen note that increased size is increasingly necessary to compete with high output per cow in other nations and given low prices. Average days in milk, estimated from herd test results is 226, with the average liters of milk per cow per year at 3,436.

According to the Livestock Investment Corporation (LIC), New Zealand remains a low cost producer due to large herd size, more cows per labor unit, lower capital investment, and a grass based system. The LIC uses liquid doses of semen collected nationwide (versus frozen) which provide a much higher dose per year of semen from the top bulls.

The South island has seen its percentage of nationwide milk production rise from 15 to 19 percent over the last 3 years

due to conversion in Southland and around Christchurch from beef and sheep to dairy. Dairy is seen as more profitable and sharemilkers (those who don't own land) have increasingly come to start dairy operations in Southland where land is one half the price of Waikato pasture.

DOMESTIC CONSUMPTION

Prices

In 1998/99, the DairyBoard paid out \$3.25 per kilogram of milk solids. This was 25 cents/kgMS or 8 percent above the previous year. Total payouts for milk were \$100 million higher than in 1998 and amounted to over \$2.6 billion. The improved payout was attributed to: foreign exchange benefits and increased cost recoveries from supplying manufacturing dairy companies that offset the negative impact of international prices. The Board's principal strategies are targeted to profitably improve the marketing of products above world dairy prices and in turn improve shareholder return. The Dairy Board is predicting an increase in the 1999/2000 payout to \$3.40 per kg/MS with a farm gate price of \$5.93 kg/milk fat compared to \$5.67 in 98/99.

International, in 1999/2000, the Board expects milk powder and butter prices to be up slightly, with cheese prices fairly stable. For details on New Zealand dairy export prices by country of destination for 1998/99 (quarterly and annual), see NZ9054.

TRADE

According to the Board, higher milk output and a continued recovery in Asia is expected to lead to a gain in dairy product exports in 1999/2000. Demand in Southeast Asia is expected to recover further with Japan to see a slight rise in imports. Russian demand for dairy imports is still expected to remain depressed. Little change is expected in EU or U.S. imports.

In 1998/99, butter exports fell due primarily to lower shipments to Russia while cheese exports rose with higher shipments to the U.S. Whole milk powder exports in 1998/99 rose only marginally as shipments rose to China and Malaysia but fell to Venezuela and Mexico.

In 1998/99, the volume of consumer and food service sales was down slightly on last year, while revenue was higher at \$2,816 million compared to \$ 2,771 last season. Sales in Southeast Asia have been steady throughout the Asian crisis, while the overall decreasing consumer volume was mainly due to a 75-percent devaluation in the CIS (mainly Russia). The devaluation increased the price of Board products and caused sales in that market to decrease significantly as consumers switched to alternatives.

Both revenue and the volume of ingredients sales increased slightly by 4 and 2 percent respectively in 1998/99. Shortages of domestic American supply saw sales to North America increase by 40,000 tons and the gradual improvement in Southeast Asian economies saw a similar increase in sales to the region. The increases were partially offset by a decreases in some Latin American markets, in part due to currency devaluations, of up to 40 percent in Brazil.

POLICY

Domestic

The New Zealand Parliament approved on September 4, 1999, the Dairy Restructuring Bill, which is the first step in eliminating the statutory single seller status of the Dairy Board. Behind the legislation was the realization held by dairy industry leadership and the Government in power that given steadily declining global dairy commodity prices, changes were needed if there were to be improvements in shareholder value fast enough to sustain and enhance farm profitability. The Bill provides for New Zealand's nine dairy companies to merge and for the Dairy Board to become a 100% owned subsidiary of the mega cooperative. The single integrated cooperative dairy company would process and market an estimated 95 percent of New Zealand's milk. Dairy farmers would own the megacoop directly. The cooperatives would merge into a mega coop (called MergeCo or NewCo by some). Foreign investment would be allowed in the dairy industry, raising the possibility of Australian investment (and possibly Italian investment).

From September 1, 2000, the "statutory" export monopoly would be removed, opening the way for exporters of dairy products to choose how and through whom they market their products. The megacoop for the first 6 ½ years (til 2006/2007), has exclusive right to specified EU, US, Japanese and Canadian butter and cheese markets and the Dominican Republic powdered milk market. These markets take only about about 20 percent of total dairy exports but are the most profitable and are where the Dairy Board has established important marketing networks. This control would be gradually phased out during the following 4 years (by a 25-percent reduction in megacoop control each year, administered by a quota entity). During the 10-year period, there likely will be 1-2 smaller companies that will choose not to join the mega coop and could export independently. The megacoop, however, given its control of most of the milk supply, would still likely export most dairy products through the 10-year transition (including to non-quota markets), but the NZ Dairy Board would effectively relinquish its statutory state export monopoly control.

Parliamentary approval is only the first step for the merger approval. The merger of the dairy coops also requires the approval of the Commerce Commission. In August, the Commerce Commission rejected the merger as proposed, raising 48 questions and noting concerns over limited domestic competition and benefits not outweighing detriments (for more details see NZ9060). The Establishment Board will now submit a new merger proposal which will need to address the Commission's concerns. A submission may occur in November, with a final Commerce ruling in January or February. Assuming Commission approval, a vote by farmers, requiring 75% approval could take place in March. This time table allows for consultations with farmers, who have had concerns about the pace of the restructuring and lack of information. In anticipation of the restructuring, dairy companies are also discussing mergers. Kiwi and Northland, the second and third largest dairy companies in the country have recently announced their intent to finalize a merger before the end of the year; and in another meeting with the New Zealand Dairy Group, the largest dairy company, all three companies agreed to some basic merger details.

The Dairy Board has also announced that it will increase its research spending by up to NZ\$150 million (US \$80.8 million) over the next five years to investigate biotechnology applications for the dairy industry. The industry's own studies show that the potential returns from biotechnology were big, even though it would be 5 years before new products or processes emerged from the program. The Board has also emphasized that it would be sensitive to consumer perceptions and the importance of maintaining the confidence of its customers (for more information see

NZ9059).

International

For the new WTO round, the GNZ seeks the elimination of all export subsidies, including for dairy (for EU export restitutions and the U.S. DEIP), sharp reductions in domestic support, and significant improvements in market access (including increases in quota amounts and reductions in above and within quota tariffs as well as other reductions in tariffs (non quota), i.e., including peaks). The GNZ also wants to see the U.S. discipline its export credit guarantee programs (preferably before the new Round starts). Regarding STEs, the GNZ is sensitive on this issue given the restructuring of the NZ Dairy Board, but may be willing to support some form of transparency measure in the WTO. As part of the Cairns Group, the GNZ plans to work closely with the U.S. and other like-minded countries to push for significant trade reform in the new WTO Round. The GNZ worked closely with the USG during 1999 in various APEC meetings, resulting in the successful September Auckland Leader's Meeting, where APEC agreed to the push the elimination of agricultural export subsidies in the new Round.

The NZ Dairy Board paid NZ\$527 million (US\$279 million) in tariffs and duties in the 1998/99 year, NZ\$50 million above the previous year and the equivalent of NZ\$35,000 per dairy farmer. The Board estimates that only 6 percent of the international market is freely accessible to New Zealand, providing the urgency to address this issue in the WTO.

The GNZ joined with the U.S. to successfully challenge Canada's dairy export scheme (special milk classes) in the WTO (with the original panel and the appeal panel ruling against Canada). The GNZ sees the decision as being important because it will cut down opportunities for exporters to do an end run around their WTO export obligations. The GNZ case to the WTO on spreadable butter inclusion in their EU quota was also successful.

MARKETING

International Marketing Restructured

The Dairy Board at the end of the 98/99 year restructured its international marketing operations, which according to the Board, uses a template applied by most world's most successful fast moving consumer food companies. Called Winning Worldwide, it builds on the strengths of marketing infrastructure the industry put in place around the world—80 companies spread across five continents, successful brands and skilled people. The basis of the change is the creation of two distinct and separate operations—New Zealand Milk, handling the Board's branded consumer and food service business, and New Zealand Milk products (NZMP), responsible for the marketing of ingredient products. Cross functional, cross geographic product categories teams whose focus is global rather than regional now drive the growth the growth of the Board's business in sectors such as milk powder, processed cheese, liquid milks, and cultured foods. The Board reports that benefits already flowing from the restructure are faster roll out of product services around the world, lower costs, and more effective use of R&D.

For New Zealand Milk in 1998/99, despite lower export sales volume due to reduced demand in some major markets, revenue from consumer and food sales was slightly higher at NZ\$2,816, with earnings of NZ\$176 million. NZM has pursued a strategy based on "Nutrition for Life," catering to needs of consumers of all ages, which resulted in several successful product launches during the 98/99 year, including ANLENE gold, a high calcium milk powder aimed at those over 50. The ANLENE brand has become a market leader throughout Southeast Asia and is being promoted in

Latin America. Latin America was also the focus of two new milk powder products for children, while SOPROLE in Chile added to its range of innovative products. In the very competitive UK yellow fats market, ANCHOR took advantage of significant growth in spreadable butter sector to launch SOSOFT, a premium blend of butter and natural oils. Flagship ANCHOR brand maintained its leadership of the UK butter market. For cheese, MAINLAND in Australia recorded exceptional sales, helped by internal restructuring and alignment of the business with major retail requirements. The food service business expanded into a new continent in 1999, with the launch of the New Zealand Milk Service in South Africa. Meanwhile, relationships with the global fast food industry were strengthened through the acquisitions of several new McDonald's markets in Latin America and Asia, and the continuation of all previous year's Pizza Hut markets.

For NZMP, the ingredients business in 1998/99 showed substantially higher profitability, with earnings before taxes at NZ\$ 264 million. This was based on higher sales volume (up 2 percent to 1,046,000 tons), and higher revenue (up 4 percent to NZ\$ 4,605 million). Underpinning this were higher sales to several markets, including greater sales of cheese and cream products to North America and a rebound in milk powder sales to SE Asia (despite reductions in butter sales to the CIS and milk powder to Latin America). The global category approach was used in the area of specialized protein ingredients that NZMP supplies to dairy products—the NZMP further expanded its business in traditional European markets and transferred its technology elsewhere including Latin America. In the nutritional area, NZMP tapped into the growing North American market with a range of high calcium proteinates developed for the manufacturers of nutritional bars and beverages. Cheese ingredient sales also grew to the U.S. In the area of ingredients for recombining, NZMP established itself in two emerging SE Asia markets which offer considerable opportunities, Vietnam and Myanmar.